Audit and Finance Committee Meeting Transcript – 06/03/2020

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[9:38:49 AM]

>> Alter: We are going to convene this meeting. We have all of our members present. And our first and only item of business is the pension analysis for the city of Austin employee and police department and retirement systems. Staff, would you like to begin your presentation, please? >> Can you remember now? >> Yes. >> Awesome. Good morning. We appreciate the opportunity to present our pension analysis. Can we pull up the other presentation? >> Sure, sorry. Before we begin I would like

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to express my sincere thanks to the many, many people who worked on this project to get us to this point. Specifically the police and employee retirement system board of trustees, the board chairs, detective Tyler link and Ana Canales. The retirement system executive directors, [indiscernible] And Chris Hanson for the employee system. City staff who worked on our interdepartmental team. Our consultant pfm and especially deputy cfo chief financial officer Ed van eenoo for his leadership and this important project. I'm Elaine hart, the chief financial officer. Before we begin a little background. The city of Austin has three employee retirement systems. They're all contributory defined benefit plans. Each of these plans has monthly retiree annuity benefits that are determined

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by the years of service, average salary and a system multiplier. Investment returns are not a factor. All three plans are created in state law and state statute governs the minute numb contribution provisions. This will cover two of the three retirement systems, the Austin police retirement system known as aprs and the city of Austin employees retirement system refers to as coaers. This presentation will cover the city manager's 2020 initiative. We'll identify the board members, the working group, outline our process and timeline. At that point we will turn our presentation over to our consultants, public financial management, to Jim link and Michael Nadal, who will cover their report. Once their report is

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concluded, it will come back to me. I will cover the board recommendations, city staff recommendations and our next steps and then we'll turn the meeting back over to the committee for discussion and possible action. Next slide. As noted on the slide, the city manager had several initiatives that he announced with the proposal of the fy2020 budget. This was one of them. He asked that staff work closely with our partners at the two systems, police and employee retirement systems, with a goal of developing long-term strategies and options that would ensure the financial sustainability and headlights of these two systems. Money was put in the budget for funding consulting cis fence. And we wanted to not just use city staff expertise, but to look outside to folks who work with pension

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systems to assist us in identifying and evaluating options that would ensure the long-term sustainability of these retirement systems. We also wanted to do some important benchmarking work compared to other peer cities of similar size. The manager asked us that we work cooperatively with the board of trustees and their executive directors and he wanted also for us to engage an interdepartmental team. Next slide, please. Here are the two board of trustees, the membership of the boards. Each has an 11 member board. Each board has a councilmember on it and city staff on it as well as active employees and retirees of those systems. Again, we've noted on this

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slide detective Tyler link is chair of the aprs system, Patti fedderson is the executive director. Councilmember tovo is a trustee on this committee. On the coaers, Ana Canales is the chair, Ed van eenoo the vice-chair, Chris Hanson is the executive director and councilmember pool serves as a trustee on this committee. Our staff team included a number of departments, not just financial staff. Austin energy was represented by their chief financial officer and deputy mark dumbrowski. There were others on the team as we expect to have

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some legislative changes. So we kept them involved from the git-go. We also included human resources, Joya hays and her deputy director Karen Haywood who is over the benefits division. Because this involved the police department we included Deven desai, who is a critical member of this team. Lee Crawford with the law department. Lee was instrumental in developing the supplemental funding plan in 2010 for the employee retirement system so he's got the legislative background as well as a personnel focus from a law perspective. So he was also a very important member. The police department, because this affected the police retirement system, they're also a very large department. And we wanted to make sure we took into account how any changes might affect recruitment of police officers in the future. Next slide, please.

[9:46:01 AM]

This is our timeline. Again, we cranked up right after adoption of the budget. We hired our consultants. We did two updates for the committee. One was the annual pension update for all three systems. That was done in I believe October and November. I did an update on what was going on in the state, how we got to this point, what other Texas cities were experienced, and that sort of thing. Then in January we formed our teams, we started looking at plan design and funding options. In February pfm did the initial benchmarking and actuarial modeling. In March that information was presented initially to the police and employee boards and to their chairs

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and some of their staff. And executive directors. And then in April and may we started an earnest meeting with the boards and they did some actuarial scenarios themselves. Pfm did this presentation you will see next for each pension board, for coaers, on may 13th, and for the police retirement system on may 26th. And so that's taken us to this point to get ahead of our proposed budget and the next legislative session to inform this committee so that they can consider some polling recommendations. With that, I'm ready to turn the presentation over to public financial management, our pension consultants. Jim link and Michael Nadal.

[9:48:01 AM]

>> Thank you. This is Mike Nadal from pfm. We can switch presentations and then dive right in. Is it possible to load up the presentation we had previously? >> Yes. We're working on it. Hold on. >> Got it. No problem.

[9:49:03 AM]

There we go. Thank you. So again, I'm Mike Nadal from pfm group consulting. Joining me a little later in presenting some of our findings to you today will be Jim link from pfm asset management. We've also had some analysis and contributions to our work from Dennis Whaley and his team out of pfm financial advisors. So thank you for the opportunity to work with the city on this very important project. We'll be covering [indiscernible] At a detailed level but I note the report submitted also includes some additional benchmarking and analytical detail in the appendices. With that why don't we get right into the findings if we could move ahead a couple of slides, please.

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>> This slide presents the actuarial status of the three systems for the city's employees and retirees as of December 31st, 2018, which is the most recent day upon which all of the systems have complete actuarial set of findings. And what you'll note is that these are significant commitment to the city's employees. The long-term liability is well over $6 billion. The city has put aside over 4 billion for that commitment. But notwithstanding the commitment that's been made over the years, there's currently a calculated liability that's unfunded in excess of two billion dollars across the three systems. The majority of that being part of the largest system that the city of Austin retirement systems or coaers, but shortfalls

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across all of the systems with a current schedule to pay down those liabilities that is relatively prolonged, particularly in the case of coaers or actually would never pay down the liability in the actuarial modeling on the side of police. If you were able to take a realtime snapshot of the actuarial today it would be higher because in part because of the recent market weakness in the wake of the covid pandemic and the associated economic downturn and in part because we'll touch on as we move forward a little bit the plans have been revising their actuarial assumptions even since the snapshot date of December 31st, 2018, that was the basis for these calculations. And when you change some of

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these actuarial assumptions to adopt a more prudent approach and to reflect experience, sometimes -- and unfortunately that's the case here, it means that you need to recognize an even greater underlying challenge that needs to be funded over time. But even on this most recent fully developed actuarial analysis we're talking about a two billion dollar plus aggregate liability that is out there for the city to address in the years to come. If we can turn the slide and focus a little bit more on coaers, on slide five, this challenge is not due to a lack of action. I think it's important to recognize that not only is -- has the city set aside billions of dollars over these challenges over many years, but those efforts to address the unfunded

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liability have been intensified in a couple of different ways to the systems in more recent periods. Over the last decade or so the city has significantly increased its funding commitment on an annual basis to the coaers systems, building on commitments that go back even farther to contribute more than the statutory minimums. And in 2012 a new benefit tier was introduced for future hires that provides a somewhat more moderate level of retirement benefit to help manage down the liability prospectively. Nonetheless, over the course of the years since the start of the decade, the coaers liability has still increased even with this new benefit tier introduced, even with increasing city contributions, and the funded ratio for the plan,

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the degree to which the plan is actuarially funded, has slightly declined. Similarly, if you can turn the slide, the police plan, the Austin police retirement system, aprs, has also seen increased city contributions over the past decade or so, but has also seen a significant and what are sharper increase in the unfunded liability in a somewhat greater erosion of the funded ratio. And even if the city would continue to meet its current funding commitments in full as it has, the current actuarial evaluation even with investment returns meeting their goals as is pretty unlikely to happen at least in this current year, that liability would be forecast to continue to grow and the degree of funding would be forecast to continue to decline because

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the current structure for funding the plan is actuarially insufficient to fund the benefits as the systems actuaries noted in that recent valuation, the aprs's funded ratio is expected to continue to decrease until it reaches zero and the assets of the system are depleted over many years if no corrective action is taken. So turning the slide, why has that happened? Why has underfunding grown as funding has increased and the coaers been adjusted? You will see there are several reasons for that. One of which is investment returns, which have been below the plan's assumptions -- >> Excuse me, Mr. Nadal, they send to advance the slight to slide seven. >> I'll pause. There you go. You can see over the past five years and even over the

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past 15 years both the coaers and police retirement systems have achieved net returns on the assets that have been set aside that have fallen in recent years pretty significantly short and in longer term a little bit short of the historical assumptions that the system was counting on. So if you're not gaining those investment returns, your funded ratio falls, you need to put in even more to catch up going forward. And that's part of what you see here. Part of what you see is the adjusting to those changes in what is seen in the markets, and this is not unique to Austin. Systems across the country have been revising their investment return investments R. Assumptions downward to reflect what is more currently anticipated for future market returns and seem to be realistic and achievable. And that affect also means

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that when you're building that actuarial model you can't anticipate as much to come from just investment returns, which means to meet the expected liabilities greater contributions are required or changes to the ultimate benefits and liabilities are required to get things more into balance. I'd also note while the slide was waiting to change that under funding has not been driven by underfunded or unfunded benefits. Neither coaers nor the police system has added a cost of living adjustment for quite a number of years. And so it really is much more' function of the investment returns and also the fixed funding approach that the city uses above the statutory minimums, but not based directly on annual

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actuarial evaluations falling somewhat short. And that's further illustrated in this slide which is drawn from analysis that moody's investors does, one of the major credit rating agencies. They take a look at how much funding contributions do or don't fully cover the cost for your actuarial set asides for future benefits and the interests on any unfunded liability. They call it a tread water metric. And by that measure, what the city has been doing, even though the statutory minimums and has been increasing in recent years, still comes somewhat short of what it would take just to keep the funded ratio even on a going forward basis. Turning the slide, we'll talk shortly about how some of the external rating

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agencies and other market participants view this, but first just a couple of notes about the governance structure for each of these two largest city systems. Like many systems around the country, the systems -- the retirement benefits are managed with a mix of roles and responsibilities. There are state legislative, statutory provisions that cover particularly the benefits that can be provided. The city as the plan sponsor has some role in approving Colas for the coaers system and also in terms of what additional contribution the constituent may make over and above statutory minimums. The city of course also, as the chief financial officer noted, has some representation on the board. Four of 11 members are

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either from council, council appointees or the city manager's designee. So there's that voice, but also a significant role for the board in terms of the investment management, the actuarial assumptions and the like. Turning the slide, the structure for governance for the police system is similar and also includes a mix of responsibilities. We can jump to slide 10. But it's just a little bit different. One fewer city representative on the board, but also some greater flexibility for the board to adjust benefits, and no role in -- beyond the minority

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board representation for the city to approve or disapprove of any potential Colas. And again, there hasn't been one for quite some time, but just a few distinctions in the different roles and responsibilities for the two systems, both of which feature again a mix involving legislative board and city responsibilities. So turning to slide 12, I want to now focus on how the rating agencies in particular who evaluate the city's credit have viewed the unfunded liabilities and also the trends and context for those unfund it had liabilities. And any credit rating agency considers pension funding to be a significant component of an overall rating. There are of course many other factors in terms of

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your general financial condition, the economic condition of the city, your overall debt levels and so on. But pensions are an important part of that. And what each of the rating agencies looks to do in somewhat different ways is to put those pension liabilities in the context of your overall long-term capacity to meet them. So they'll look at your pension liability in relation to your revenues, your pension liabilities in relation to your tax base, and they will compare how you look relative to other governments and other governments of a similar character on a normalized basis. When you look at the metrics adjustments, it's actually done by moody's, one of the major credit rating agencies. They use some standardized

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actuarial assumptions and tweak your numbers and everyone else's to be closer to apples to apples. And when they do that what you see particularly in the highlighted red area is that the pressures the city is now facing with the scale of its pension liabilities in relation to your operating revenue in particular, are somewhat greater than what you would typically see for other large cities with the triple a rating that Austin has achieved and takes pride in and counts on for lower costs of access to the capital markets. In fact, you're more like a double a rated community in terms of the scale of your pension liabilities in relation to operating revenue. So when the whole constellation of factors is taken into account in crafting a rating by the

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agencies, the pension burdens are part of what perhaps weighs you down a little bit and is one of the areas that needs to be addressed to help sustain the high credit in which the city rightly takes pride. Then if you turn the page you can see that this isn't just a numbers issue, it's something that the major rating agencies have commented on in their narrative reports about the city's rating. Moody's actually last year placed a negative outlook on the the city's triple a rating reflecting that they do see some meaningful pressure to maintain that rating. And one of the specific factors they cited, was, quote, inability to manage the [indiscernible] And with the employee retirement systems, that that's inconsistent with a triple a rating. Standard and poor's did not

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give you a negative outlook thankfully. They recognized the many other strengths of the city and maintained the credit at a stable level, but they also acknowledged the risk of the large mention obligations and fixed costs and spoke to the importance of addressing those costs in order to sustain the city's long-term financial position and the long-term health of the plans and the rating associated with all of that. Turning to the next slide, another external perspective on the burdens that the city is now facing with the pension funding can come from the Texas pension review board. This is a board that oversees all pension plans across the state and they

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require funding some restoration plans for those systems that are not in a position to pay down their unfunded liabilities over a 40 year period. And currently based on that standard, the aunt police retirement system would be considered at risk if that's not addressed within a three-year window that the board provides. And I'd note that while coaers is still as of December 18 just barely within that range, it is above the recommended level for amortizing down the debt of 10 to 25 years being preferred, 30 years being kind of a maximum recommended level. Coaers is at 32 years as of 2018. And again based on more recent developments it looks to be trending in a negative

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direction without some action to address it. So there are real pressures, real external concerns. So I want to change focus a little bit and look at the benefits being provided because while the funding is critical, the financial dimension to this is critical, it's also of course important to have a competitive benefit that helps the city recruit and retain good quality employees. It's important to think about and help employees prepare for retirement security and a dignified retirement for career workers. We also took a look at how your benefit structures today compare to those as seen among other large Texas cities. If we can turn to slide 16 I'll begin to provide an overview of that. For first the general employees, the coaers members, not police or firefighters, but its

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civilian city employees if you will. And there are a couple of things to think about when comparing these benefits. The pension benefits don't exist in a vacuum, they may or may not stand side by side with social security and retiree health care. So there's kind of a full package to think about. For general employees and police, Austin does provide both a traditional pension and social security coverage. And social security is important because not only is it an extra source of retirement income, there's additionally a further contribution that the city makes towards that benefit of 6.2 percent of pay and employees do the same. It's part of their overall compensation structure. I'd also note that social security has a built in cost of living adjustment. So when you're thinking about the long-term character of the overall

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benefit package, there is for that part of retirement income a cola that is already there independent of what the city may or may not do with its own benefits. It's not universal, even among general employees, to provide social security coverage. Dallas and Fort Worth do not for their general employees. And San Antonio, while they do have social security, is in a different structure retirement program under the trms retirement system that is not a traditional pension. Typically Austin is in the more competitive, generous grouping of major Texas cities. All of these plans, including Austin, as already noted in 2012, have in the last five or 10 to years established somewhat less generous tiers for more

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recent hires to help manage these costs. And even among the grouping of cities that has a traditional defined benefit pension and social security, Austin's overall benefit structure is pretty competitive. So if you turn to the next page we've highlighted some of the major features of that plan. The appendices include some more detail. Just note that the multiplier, the portion of the formula applied to years of service to calculate the size of the benefit, is consistent with the cities with the more generous structure, and this is again for your current, more recent post-2012 hires. And again, there are kind of differences across the boards in the elements of the plan of those covered here and those covered in the appendices, but in the aggregate, the current structure is very good, and

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especially so when social security is added into the mix. Turning the page from a funding perspective, you see that the -- this is just for the pension plan, not taking into account the social security contributions of both city and Austin general employees make on top of this. The city's contribution level currently is I guess mid range. There's a fair amount of variation there and employees likewise are kind of mid range, some of their counterparts do contribute more. A few contribute less. Turning next to the police benefit structure, here you see that Austin is unique among this grouping of Texas cities in providing both social security and traditional pensions. Austin is also the only city

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in the police grouping that has not adopted a new tier or more recent hires with a different and more moderated benefit level. So there's a few more distinctions here. If you turn the page you can see that existing Austin plan in comparison to the newer tiers for the other cities is again very competitive. That multiplier that is in the benefit formula column for Austin, 3.2% of pay for each year of service as the future benefit is developed is the strongest of the group. And again while there are variations in terms of exactly how many years you have to serve to -- how old you are to qualify for retirement or what goes into the formulas, the city's

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plan even without taking that into account is very strong. Turning the page from the -- the city's contributions are perhaps a little bit below the mid range among other -- these other Texas cities and the employee contributions are just a little bit above the mid range, but very much in the mainstream I terms of -- in terms of how much they're putting towards the benefits as provided. I've note the the different systems, all the other police systems and all the other general systems, including Austin have made some changes in recent years. I just want to highlight several of those that have been prominent over the last

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couple of years. So turning to slide 22, Houston, Dallas, Fort Worth in particular have all faced varying degrees of funding pressure for their plans, concern about funded ratios and the need to address those funding concerns to assure the sustainability of their plans. And through different mechanisms based on the different legal structures and requirements for the plans have made some significant changes P you know, again kind of within the last really several years and in some cases building on earlier plan changes. Putting into place increased contributions for all employees, putting into place some increased funding

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commitments, making changes to the levels so they can be sustained in longer term. We've got more detail about that in the appendices and there's also I think Jim in a few minutes is going to touch on some of the risk management features particular to the Houston reforms as part of what he shares with you. With that let me turn it over to Jim to talk about with this kind of backdrop and context what are some of the city's options for improving the health of its plans going forward. >> Thanks, Mike. If you could flip to slide 24, please. We'll talk about what are the tools, what are the alternatives for addressing these various underfunding issues. And there are really four that we can speak of. One is budgetary funding. Another is managing the

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benefits liability portion. Risk management and building the fund's assets. I'll note that the city of Austin was one of the early adopters of funding policies when that became kind of in the mainstream. And moving down to the benefits liabilities as Mike talked about in coaers there have been some changes in tiers and benefit design and the like. And then we'll spend a little bit of time talking about the risk sharing which Mike referenced a little bit ago. If you move to slide 25, and let's talk about funding policy, all of the systems, including fire, have a funding policy. One of the challenges -- it's common to Texas plans, but one of the challenges that you're facing ties to the fact that the funding policy is not oriented around the actuarially determined contribution.

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Instead it's a fixed rate contribution. Fixed rate contribution can work, but it does create some challenges to maintain sufficient funding. If you look over in the -- the right section in the middle in the second paragraph we talk about the highest degree of contribution stability is the fix fire department percentage, but it falls short in achieving two other goals. One is retirement security and the other is generational equity. And at some point the contributions have to be made if we fall short. If you will move to slide 26, kind of adding on to the funding policy discussion, the government finance association, which is a association of cfo's and finance directors from across the country, has defined the approach and the most common approach is being funding on an

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actuarially determined contribution basis. And that in fact this is the most prudent way to maintain the intergenerational equity and the sustainability of benefits. That really as you see down on number three at the bottom defines [indiscernible] Dis, their recommendation is to fund the full amount of the actuarial determined contribution each period. We'll flip past the next two slides, which really get to benefit design options, which at least in the case of police will be something we'll talk about in a couple of minutes. And we'll talk about risk sharing. Risk sharing is another major element of this. And risk sharing essentially is oriented around having both the city and its taxpayers along with the participants and

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beneficiaries of the system share to a certain degree and the risks that are inherent in the systems, both to the good and to the bad. There are a couple of ways that we can -- we've seen this play out on the left-hand side. One is splitting the normal cost or the cost of each year of service for an existing employee. In some cases like in fort Worth there's actually a split of the actuarially determined cost, which includes both the normal cost and the cost of the unfunded liability. There's a cost corridor approach that is in the Houston case. And then there are even some hybrid approaches that define how contributions may be split between defined contribution and defined benefit plans. When we talk about risk sharing, in Fort Worth where contributions are less than

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the actuarially determined costs for a couple of years, the contributions are increased in a 60/40 are proportion with the city funding the 60 and the employees funding the 40. So that all parties are kind of involved in the overall funding of the unfunded liability. If after hitting some certain statutory caps, annual caps, it's still insufficient, then city council has to decide how we want to address any additional funding over and above that. In the case of Houston they've actually defined some corridors to try to put some limits, if you will, on the pluses and minuses surrounding those contribution changes. The way they came up with that is they took a really complete view of a target municipal contribution rate, which would be a closed 30

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year amortization on the 30 year liability assuming a seven percent return. The expected normal cost and the expected administrative expenses. And there's a sharing and a corridorring and a limiting of the plus and mines of that corridor. Which is helpful from a budgeting standpoint. It can run into some similar changes that a fixed rate funding method can, but to a much lesser degree. It's a much stronger way of funding the pension system. The last slide we put in because it is a hot topic and a lot of people are dealing with this. In particular out in California, and that's the issuance of pension obligation bonds. That would be a different way the city could address some of the unfunded liability if they chose to do so. There are a lot of

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considerations to be had around that, but we felt like here and in the appendix we've addressed that and some kinds of extra funding mechanisms that the city might want to consider at some point in the future. We just didn't want to leave them completely unsaid. And they are, by the way, they are not these extra funding methods are not a silver bullet. They should not be done in place of good healthy reforms that make the systems more sustainable in and of themselves. They would be a piece of some kind of a plan. We moved to the next couple of slides and these next two slides that we'll look at, slide 32 and 33, are from the system's actuaries. So this was actually done by the systems themselves and their actuaries, Gabriel roader Smith, to describe

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some of the potential funding costs in light of the investment returns and infunded liabilities. So this first chart is for coaers and you see up in the top left the current contribution rates, the city contribution rate at 18 percent, and the current member contribution rate at eight percent. And in the top table, what you see here is across the top is a 2020 assumed rate of return. Seven percent being the actuarial discount rate. Potential for a zero rate of return this year. A negative seven and a half and a negative 15. Obviously that is in anticipation of what might happen given covid, social unrest, all of the other things that are going on that heretofore [indiscernible] The markets in a month, but I haven't seen to stick very much. But what this tries to do is

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show the first line, the dec if 25 year amortization. So what that means is if we take our unfunded liability and amortize it and pay it off over 25 years, what is the cost to the city? What's the employer cost in order to do that? And we can see if you hit your actuarial discount rate it would be just over 21 percent. Compare that to the 18% and you can see in part why you're falling behind. Your current fixed rate isn't quite enough to fund the 25 year amortization. If this was a 30-year amortization it would be a little less, but still not as low as 18%. And you can read across if in fact the markets were to turn south again and you were to end up with a negative 15% rate of return in coaers this year, the and

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taylorly determined contribution would be about 26 and a half percent. The next line down looks at the funding period -- stay on that one. If the contribution remains 18%, how long would it take to pay off the unfunded liability. And at seven percent it would be about 36 years. If you go to the negative 15% you would never pay it off. And the zero and seven and a half percent falls somewhere in between. At the on the bottom of the table, one of the anomalies or one of the differences in the way Austin treats one particular aspect of the plan is that service purchases for military or other permissive reasons in most plans are done -- are calculated to be actuarially neutral. In other words, the payment into the plan is the full cost of the benefit or the

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assumed full cost of the benefit. In the case of Austin, for prior military service, basically it's a three-quarters discount so you can see that the total purchases were about six million and the city and the system effectively funded about 28 million of that. Other service, it's not nearly as big a difference. $65 million of purchases with a shortfall of about six million or about 10%. If you want to move to the next slide. When we look at aprs, again same thing. The top right-hand corner you can see the city's contribution rate and the current member rate. Here they look at a 30-year -- 30-year amortization rate. So if we're paying off the unfunded liability and we see the same kind of return information on the left, zero percent return in 2020, minus five or minus 15.

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So you can see that the rates for the constituent are in the 34, 35 percent range in order to pay off the unfunded liability versus the current 21. I mentioned that the benefit tier we would look at back here. Here are two examples of benefit tirz that have been looked at. Four new hires -- for new hires only, a change to the multiplier from the 3.2 to the 2.5 and some changes to the age and service requirements for retirement. And then again, the second piece is that all members' contributions could be increased from the 13 to -- 13% to 15% in 2021 and 17 in 2022. And you can see what that yields in terms of the employer cost. Still a significant amount more than the current 21%,

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but not nearly as high as if there were no benefit changes whatsoever. With that I'm going to turn it back over to Mike to kind of take us through the last bit of the key findings. >> Thanks. We can turn to page 35. Just to summarize what we have found, the city's challenge again is significant. The overall unfunded liability is in excess of two billion dollars. That's happened despite some significant actions to date because investment returns and some of the adjustments made to account for investment returns falling short of actuarial assumptions have been -- have been eroding the health of the funds. That could be even then worse, with the covid market down turn,

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as Jim noted, so far we're sort of holding our own in terms of market performance, but you're counting on, you know, a seven or greater percent return every year and flat means you're falling further behind. So they're real challenges, and the statutory fixed funding approach doesn't automatically adjust as those challenges may change over time, and this can ultimately affect both the sustainability of the plan and the benefits for its participants and/or the city's financial position and credit rating. Again, summarizing on the next slide, some of the context underlying that, the current benefit structure as outlined in very short summary form on 36, the next slide is very competitive for the different police groups. I think we went one too far.

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There we go. For the different general and police groups, with both traditional pensions and social security coverage and good quality benefits. Austin is among the only Texas cities without a new tier for police hires and a number of other types of major types of cities have made very recent changes to address parallel, somewhat different but parallel pension funding challenges. None of those adjustments, particularly for public safety employees, have moved away from the type of public sector plan that is prevalent towards a 401(k) Style private sector model, so while there are different alternative ways to go at this, most of the changes that have been made have been to revise the existing defined benefit framework to just be a

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bit more sustainable and affordable, and better funded over time. And as we've noted in -- from several different perspectives, the practice that is common in Texas, much less nationwide, of contributing a fixed amount each year, rather than varying contributions based on actuarial experience is something that puts you at greater risk of falling short, makes it harder to sustain the level of funding that it would take to keep you actuarially well funded, so it's a factor to think about. From there, just a final slide 37, with regard to perspective solutions, what we've seen nationally is that the best approaches are almost always balanced approaches, that combine a mix of some changes to ensure

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benefit sustainability, some increase in contributions and perhaps changes to the approach in those contributions, and that's, in more recent reforms, often complemented by some form of risk sharing, as Jim described with the Fort Worth and Houston examples, just to name a couple. So these challenges are real, but you've been -- you've been squaring up to them for years, and by addressing them again now, there's -- there is unquestionably time and positioning to kind of move things back into a good, sustainable path. So I think that concludes our presentation, but we're happy to take questions or to turn it back to the city.

[10:33:55 AM]

>> Alter: Thank you, Ms. Hart, did you want to -- >> We can pick up here if we can switch back to the other slide deck, it will not take long to finish, and then we can open for Q and a for everyone. >> Alter: Thank you. >> If we could go to the next slide. As Michael and Jim have indicated in their very comprehensive report, we do feel a call to actionith an unfunded liability for those -- these two systems

of approaching two billion dollars and the funding periods for police being indefinite and coaers being 32 years. We do think we need to move on identifying pension reforms that will provide for a long-range sustainability from a financial health standpoint for these two systems. These metrics have gotten worse over recent years, as they

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indicated, and we don't really see that investment returns are going to be the answer for easing these long-term funding challenges for us. In addition, we have the Texas legislative session coming up in January of 2021, which will provide us an opportunity to make changes to these systems that may -- excuse me -- that may require legislative action. As they mentioned, the Texas pension review board has a three-year time period for -- before you need to prepare a restorative plan. 2020 will be the second year that police is under that three-year guidance. And so this would be the first opportunity from a legislative standpoint for us to make corrective action that may not require us to go to a restorative

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plan. Rating agency concerns are important to us, and we have certainly -- that has certainly been a motivation in moving on this project. And we felt like the report that pfm provided, their analysis and benchmarking really helped inform the boards and staff recommendations and it would be informative to the council and committee for their policy guidance as well. Next slide. So, in brief, I'll go over the two pension systems, their board recommendations. These are the board of trustees. For the employee retirement system, they had three recommendations. The first would be to enact a [indiscernible] Contribution policy, one that would not necessarily require a fixed contribution rate, and that would help manage the system's risk and

[10:36:58 AM]

fund the unfunded actuarial liability over a period of time with that 30-year funding period goal. We -- they also recommended amendments to benefit policies to ensure that the obligations -- the system obligations are being met appropriately for all members as pfm indicated in some of their slides, there are some member optional service enhancements that are not actuarially neutral. They also recommended appropriate risk sharing be considered between the city and employees in a manner that manages the risks that -- of having a defined benefit plan. Next slide. Okay. There. For the police retirement system,

[10:37:58 AM]

the board recommendations are covered over the next three slides. They reaffirmed their Chimenti to achieving long-term sustainability of the system. Consistent with a funding policy that they approved late in 2019. They want to do that through addressing -- they want to address their funding deficiency through discussions with the city, and they gave specific parameters or metrics that they wanted to look at, if the funding period exceeded 30 years by three or more years, or if, under an adec system, the dec was more than 2% above contribution rates for two actuarial valuations or two cycles. So they specified some metrics that would determine when they would come back to have discussions with the city and

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we're currently under that 30-year by three or more years guidance. They also recommended that in contribution levels were not sufficient, that we consider -- that they consider and recommend to the city necessary contribution or benefit changes, both on the member side and the city side. And also recommended a cautionary Asia, 60/40, with the city paying 60% and the officers responsible for a 40% of a combined contribution rate. Next slide? They also recommended contribution increases and specific benefit changes for new hires. The contribution increases that they recommend are for the city to increase its contribution rate, effective October 1st of 2020, which would be effective in

[10:39:59 AM]

the proposed -- in the proposed 2021 budget that's upcoming to be proposed in July, or an opportunity to provide a lump-sum payment at the city's option. And that would be directed towards securing a funding period of 30 years or less. But they would also base that on an updated actuarial valuation that would likely be made available in middle of July. For their members, they recommend a increase of 2% on January 1st of 2021, which would require a vote of the system members. On benefit changes for new hires, this would be after January 1st, 2022. This would be consistent and

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contingent on favorable action at the Texas legislature on any proposed changes. Their benefits were lowered from the existing officer level benefits. The multiplier, the retirement eligibility, and years of service were changed. Multiplier was changed from 3.2 to two and a half, and the eligibility was -- required 50 years with 25 years of credit and service. They also changed the compensation calculation for calculation of the annuity from the highest salary. These benefit changes, if you look back to slides in the pfm slide deck, are more in line with what you see for the second tiers for other large city Texas police

[10:42:01 AM]

retirement systems. Next slide, please. The final recommendation of the board was to move to a more variable contribution rate arrangement based on an adc system, and they understood that that would not be put in place until a later date. They recommended December 31st of 2022. Such a change would likely require -- would require legislative action. Again, they recommend maintaining the cost-sharing ratio of 60% for the city and 40% for the officers, and they wanted something similar to the Houston system with a corridor, with a minimum and maximum, and specified that the officer contribution, when combined with the social security contribution, would never exceed a total of 24%

[10:43:01 AM]

of their pay. Next slide, please. City staff recommendations are based on our work with both the pension systems, their executive directors, our staff team, and the analysis from public financial management. We do recommend maintaining a funding period of 30 years or less, and we do believe and recommend that pension reforms are necessary to implement to achieve this. We recommend phased increases over time in the employer and employee contributions that will be able to maintain an equitable cost-sharing ratio and also reflect variations in any employee benefit levels between tiers. We also agree that a new tier for new hires in the police department eligible for that

[10:44:03 AM]

retirement system needs to be put in place, but it needs to be comparable to other large Texas cities so that we can maintain a competitive retirement benefit. Next slide, please. We also recommend moving to a more adaptable, long-term funding strategy, and one that's baiting on the adc or something that's based on actuarial contributions, as opposed to the current fixed funding approach. We really wanted to work on an approach that would not require us to have to come back to council every five to ten years to increase a fixed rate contribution. And so we agree with the two pension boards that this type of funding approach is something we'd like to continue to work with them on. And then we do also recommend

[10:45:03 AM]

that some of the member optional benefit enhancements, service created purchases, be adjusted so that they are actuarial -- actuarially neutral, but yet still maintain that competitiveness with other --

other large Texas systems. And finally, the final slide is our next steps. First and foremost is looking at our proposed budget for fy2021, in looking at phased increases for contributions for the police system and the retirement -- employee retirement system. Continue to work with the police board on a potential membership vote on member contribution increases to that system. We would like to work with a council legislative work group,

[10:46:07 AM]

working group, to continue to provide pension reforms that we will work on over the coming months, and we will need to develop a legislative package with our intragovernmental relations staff and others to move a legislative package to the legislature. So with that, I turn the meeting back over to the chair, chair alter. And we're open for any questions or discussion by the committee. >> Alter: Thank you. Let me get a second -- there we go. So before I take questions, I just want to, first of all, thank you for your presentation, and I also want to acknowledge the service of several members of this committee on various retirement [indiscernible]. Councilmember tovo has long served on the police retirement system. Councilmember pool on the coaers board, and I believe that mayor Adler leads the fire pension board. So we have a lot of expertise and

[10:47:10 AM]

knowledge here, and for those who are observing this, I also want to mention that I believe that each of us met individually with city staff to go over, so many of our questions may have been answered in that setting, but it's important that we, as a council body, communicate that we are working on these issues. The city manager and the council and our budget, in 2019, for this fiscal year, put money into the budget to have this consulting service so that we would be in line to be able to steward changes to our pensions without having to have the state come in and fix it in a way that might be less favorable to our goals as a city. So with that, I see Mr. Flannigan has his hand up. Mr. Flannigan? >> Flannigan: Thank you, chair. And thanks, staff, for all your hard work on this.

[10:48:12 AM]

You know, I do think it's important to just at least acknowledge that we are talking about police retirement systems, given everything that's going on right now, which makes this a very complicated conversation and a necessary one. I don't know that I'm prepared to have that level of conversation in this meeting at this moment, but I just wanted to put a pin in that. I'm really struck by the governance stuff. It seems -- I would imagine that the media and the public assumed the council was in control, since the city pays for it, essentially. Turns out, it's not. And turns out the legislature actually dictates a lot of this, which -- which is a challenge for us in getting changes through the legislature. But I just think -- I want to really note that in case there are reporters looking at this, trying to write some stories, because the headlines aren't going to match up with the

[10:49:12 AM]

details, knowing how headlines get written. So I'm interested, absolutely, in the ledge working group. To my mind, I think audit and finance is that group for this topic. There's separate legislative work that goes on and I don't know that it would make a lot of sense to bring up those councilmembers, given all the work we've spent on this audit and finance topic, so I would be comfortable with audit and finance be that working group on this topic alone. My question is something that was said about benefits -- pension benefits in the context of recruiting and retaining talent. And I don't know that we have the right people on this call for that conversation, but, you know, we're looking at a police department that has had, I think, over a hundred vacancies. So I'm not entirely sure that it is a simple analysis that the level of pension benefit drives recruiting and retention. How -- how are we to have this

[10:50:13 AM]

part of the conversation? Elaine, you're on mute. There you go. >> There I go. Okay. Thanks. I think we can work with our H.R. Department, Julia hays, the director and Karen Haywood, to bring back some additional information for this committee about how we do market studies, how we look at health benefits and retirement benefits, in line with how we craft our pay schedule for hiring people, so that may be a piece that we need to bring back with you and do some additional work. Certainly, that's a factor. I think that we would also look at the police department to come provide us some additional information about recruiting practices that they have and what they're actually doing to recruit officers, which I don't have any background on.

[10:51:15 AM]

But we can certainly work on bringing that information back to this committee and work with you on specifics on what you'd like to see. >> Flannigan: Yeah. It's going to be an interesting question about which committees have that conversation and which parts of that conversation, but I think that's an important element of context. I don't think we can safely assume that better pension benefits automatically means better recruiting. I don't think that that's accurate enough to say. >> It's one factor but it's not the sole factor, and you're right. >> Alter: Councilmember pool? >> Pool: I'm interested in -- Jimmy, you brought up the vacancies, and it occurred to me that -- is it -- is that gap in the funding for aps related to the fact that we have so many vacancies, there's not as much money flowing into the system?

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Is the system built out for the larger number of officers, when you look at what the benefit levels are, and we just don't have enough of a revenue stream coming in to fund them? >> When the actuaries do their --do their reports, they have done for each of these systems a recent experience study which takes into account the staffing levels, the increases are or the vacancies. That should be taken into account for the unfunded liability. When you have more employees, certainly you have higher contributions which would help, in essence, fund the system, but that also creates a future benefit as well. >> Pool: Right. >> But you're right, it does have an impact, the actuaries take into account, I believe, in their annual valuations. >> Pool: Okay. I will say from my perspective on

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coaers, I appreciate the diligence of the fellow trustees on that board. There's some amazing fire power from the staff under Chris Hanson and a lot of diligence that's been put forward on these issues, and I appreciate that, along with Ed. I think depending on how -- I just want to make two points about coaers, just to begin with. People could look at the numbers that were -- like on page 13 of the first presentation -- you don't have to pull it back up, but Elaine's presentation, and some employees could have a sense of alarm about the funding and the actuarial -- the numbers that we're looking at and worry that there will not be a pension for them, which is how they are building their plans for life, for their life. And I want to establish a seasons seasons -- establish a sense of

[10:54:23 AM]

security about this conversation. We're recognizing where our short falls are, risks are, and we are taking steps that are carefully considered and thoughtful and will be structured in order to address the risk and the short falls. So I want to lay the foundation specifically for coaers because that's the system that I have the most experience with, to assure our employees that the reason why we are having these conversations is because we are dedicated and determined in order to address the situation that has been growing over a period of time. And the city has a history of addressing these concerns, which is why we have a two-tier system at that point, group a and group B; and also why I approach the approach that is being offered up here, the adc, a-d-c, I think having that flexibility as we

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move in a really strange market, world that we're in, that that's a wise approach. And then I wanted to -- the second point I wanted to just put in the table and make sure gets included in our further conversations, I would really like to have our sme leadership involved in this discussion. I know that they regularly meet and discuss human resources with joy, we've got a great relationship with our H.R. Folks and our budget staff and our finance staff, and I want to make sure that going forward, as far as the stakeholders who are going to be reviewing the steps that we may recommend, includes asme. And then the last police I would say -- Ed, I think you and I talked about this separately earlier, and Jimmy pointed to the governance piece. The city has four piece out of 11 out of aps and coaers, and the city is the system sponsor, the

[10:56:26 AM]

program sponsor. We may want to look at a slightly different percentage of directly involved to city, directly connected to city, membership among the 11. And it would be nice if there was some parallelling with the other two pension systems as far as how they're governed and their connections to the system sponsor. And Ed could probably or Elaine could probably expand on that with more detail. Thanks. And thank you to pfm again. I've thanked you all previously in other presentations. This is excellent work. >> Alter: I cannot say mayor Adler. Councilmember tovo, did you have any questions at this time? I know you have a lot of knowledge from -- >> Tovo: I do have a item questions. One is, I, too, thank pfm for their work. I think this is a very thorough

[10:57:29 AM]

analysis and really helps understand the context for the situation we're in, as well as helping carve out a path for how we should move forward. And thank you to the staff and the staff across the different departments for their recommendations. I had an opportunity to ask -- let me talk first about the legislative committee. I concur with my colleagues' suggestion that audit and finance would seem to be the appropriate group for a legislative committee on this issue. I do serve on the legislative committee for aprs. I have to say it's not typically been very active. It's a relatively new committee over the last several years. In fact, I'm not sure we've met yet. We usually have our legislative update in the committee, in the full pension board meetings. I also wanted -- I had an opportunity to ask Ed yesterday this question, but want to ask in

[10:58:29 AM]

an open session, to review with us how the actuarial dependent recommendation would work and what kind of safeguards different municipalities place on that to ensure that they have some expectation of what the budget impact would be from year to year. >> Sure. And Michael touched on this a little bit in one of his slides where he talked about the Houston approach that they've taken to implementing an adc and having an upper limit on what the contributions could be. So I think that would certainly be part of an actuarial determined contribution approach for the cities and the employes to have some certainty about what the cap on their contributions could be, you would have to have some kind of upper threshold on that amount. And if that threshold were surpassed, then the legislation

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would include some type of mandatory adjustments to benefit levels and bring contributions back below that cap. So that's one aspect of it. Another aspect is looking at your contribution levels from an actuarial basis, as opposed to a market basis, which is standard. This is -- every system I can think of uses an actuarial valuation. They do calculate on market value valuation, but what they look at and set contribution levels based upon is the actuarial valuation of the system at a point in time. So we may have a year like we had this year where returns could go down 10 or 15%, but that doesn't necessarily mean that contributions would go up by 10 or 15% because the actuaries will take those losses, swept them out, smooth them out over, say, five to ten years; there's various ways to do that. So you don't realize all the losses at that one time. Similarly, you don't realize gains all at one time, so if you

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have a very, very strong year, it's not that your contributions will immediately drop; they smooth these things out so that a city and employees that are doing the risk-sharing adc model don't have to experience the dramatic spikes, up and down of market volatility. >> Tovo: Thank you, Ed. And can you tell us, the recommendation of the maximum contribution -- that aprs made in terms of the maximum contribution for members -- how did the staff -- I don't believe that that's part of the staff's recommendation; is that accurate? >> It's not something that we explicitly put into our recommendation, but I do think they both warrant looking at those, and we work with a legislative working group to shape changes. I can speak to what the aprs

[11:01:31 AM]

board was looking at, is, they were looking at recruitment concerns about trying to attract new employees if the amount of money that's being taken out of their check, their social security and retirement combined, gets to be upwards of 24%, that's a lot, and that they felt that that could be a drag on recruiting, and so that is a concern of the board. So there's no -- you know, there's nothing set in stone on that. You could look at systems across the country and you would see different risk-sharing aspects between employees and the employers. By statute, coaers is a 50/50 split, 8% employees, 8% city, and that's what it had been for -- up until 2010, I guess, 2008, somewhere around there, when we did the first supplemental funding plan. And since we did the second fundamental funding plan, it's taken to the second 8% city and

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8% employee. Currently, the split between employer and employee for prs is a little bit under that 60/40 split that the board recommended. But if you looked the one side on pfm, it's kind of all over the map on what that split is. >> Tovo: Yeah. Thank you. >> Alter: Mayor Adler? >> Mayor Adler: So have the consultants looked at -- they did their presentation kind of looking at larger concepts and the like. Have they looked at the two proposals coming from police and the coaers? >> They have. The actuarial analysis was provided to the consultants, and so they have reviewed what the coaers looked at.

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>> Mayor Adler: And the proposals that came back from police, were those proposals -- what -- if we were to do that, how does that change the numbers? Do we know yet? Or is there more detail to be looked at that? >> I think for the police -- and there weren't -- I would say that pfm was not the actuaries who ran these numbers and they didn't hire the actuary. The systems use their actuaries to look at different scenarios. And so I think it's actually on slide 33. It might help us if we could bring that up, of the pfm report, if we went to slide 33. But that looks -- that's the actuarial analysis that was done at the request of the apr's board, of their system actuary. And I think it shows you how the different -- the different options that are looked at impact

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the level of the city contribution that would be required. Garry, could you bring that slide up? >> Alter: Are you asking the consultant to comment on what he -- >> Mayor Adler: Yeah, while we are here, I was asking if they've taken a look at it and what they've taught about the proposals and what they say. >> Alter: So, Mr. Nadal, it looks like you took yourself off mute. Do you want to comment? >> I can comment. Those specific proposals I will note came in the relatively late stages of our work, so they're -- I think there's a bit more kind of detailed analysis that would be required to calibrate and assess the full range of impacts. But with that caveat, directionally, they make a lot of sense. I mean, as we did note, conceptually, you know, a good solution to this kind of challenge is typically a balanced

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solution with some more funding, some changes in benefits to help make it sustainable. Some consideration of risk. I think these proposals are very constructive and directionally sound and kind of take you pretty close to where you need to be. There's just some fine-tuning and details to be hammered out to make sure that in the context of, you know, perhaps new city budget challenges and the context of considerations that the employee groups may have and so on, that you've got it perfectly tight. But it's absolutely consistent with the type of approach we've seen be successful elsewhere, and again, directionally, spot on. >> Mayor Adler: And then your other assessment was that, obviously, we needed to do something and it's been called a call to action, but you concluded your presentation by saying that

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the challenge was not so great, and then the time was sufficient for us to be able to act in a way that -- that enabled us to ensure the continuity of the -- of the potential to provide people the security they seek. >> Correct. Yes. It's -- again, I did not mean to imply that inaction would be -- you know, would be advisable at this juncture. But, yes, consistent with the council woman's earlier comments, I think it's important to recognize that, you know, you're -- you know, there's absolutely time to make reasonable, prudent, corrective changes that ensure the sustainability of these plans and

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the continuity of these benefits. Nobody who's out there relying on these for their retirement security should have, you know, any heightened state of alarm. The systems are -- you know, can be fully on track with some manageable, not insignificant and not none, but manageable kind of course correction. >> Mayor Adler: Okay. So, chair, I just -- my general comment would be, I really appreciate the work that was done by our staff and then pfm. The financial position of the city is strong, evidenced by the aaa rating that we have. We should be doing everything that we can to try to stay in that place. Obviously, that's going to require us to adjust the two pension programs that we have

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talked about here, taking something that's more actuarially based seems to be the national trend and something that just makes sense for us to do, and we're in this together, us and the city generally and our employees. And I think that having everybody participate in the necessary course corrections to ensure that our pensions stay strong and that people can rely on them is clearly something that we need to do. And I see this as the call to action that it was described to be. And we should move forward. I'm comfortable with the audit and finance committee also being the legislative committee for this. I think we've kind of been delegated these issues by the rest of the body to help provide

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the shoulder to push on this. We did not discuss today the fire pension plan, other than to note at the top that it doesn't require the same immediate attention for looking at course correction, but I think it is something that we should make sure that we pick up and look at as well. Long-term, it would seem to me that something that's actuarially based would make sense, and we should make sure that that ultimately is part of the conversation that we -- that we have. So I thank everybody for their work on it. >> Alter: Thank you. I had a couple questions and then I'll entertain a motion for the broad direction that we're going -- >> Chair? >> Alter: Yes? >> I was just going to say, can we return to the grid screen and

[11:10:48 AM]

take down the presentation page? >> Alter: Sure. That's a great idea. Thank you, councilmember pool. >> Pool: Yeah. Thanks. >> Alter: So what I've been struck with in this review and in this information is the overall governance ecosystem that we're operating in. And I wanted to ask about the examples on slide 22, when the other Texas cities have gone about their reforms, seems to me that we set in motion this study and we're having these conversations because as a city and as a committee, we decided we wanted to be proactive to address these pension liabilities in a way that was financially responsible for the city, that maintained our rating, but also allowed us to have more say, sort

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of in the process. So I would love to understand better, which of these were kind of imposed by the state and which of these were put forward by the city, on page 22? And then what -- you know -- yeah. >> They were really developed by the cities, but there was -- not for Fort Worth, but for the others, you know, there was some level of legislative approval required, and, you know, because of the challenged funded status, the Texas pension review board was also, you know, in the mix at some level. But I think -- I think at the end of the day, the solutions or steps towards solutions were all

[11:12:50 AM]

kind of substantially locally driven. >> Alter: And were there significant changes made when it got to the state level, relative to what the cities had proposed? >> Um...I think they were substantially the city's plans. My -- I'll acknowledge, my blow by blow insight into that legislative process is probably somewhat limited. >> We can ask our legislative teams to look into the details. Those are fairly recent changes and we can research that for you. >> Alter: I guess part of what I'm trying to understand is to what degree is this -- you know, it's the city's decision, ultimately council's decision on these choices. Where do, you know, we have

[11:13:52 AM]

other -- other input that has to happen, like the votes on the membership contributions and trying to keep that straight. So I understand the environment within which we are trying to make these decisions and what else might come into play in these discussions. So we don't control the way it's currently set up, either in these boards, and then there's the membership who participate in them, and what is their -- what do they get -- what is their role in this process? I understand we have recommendations from each of them based on the pfm report of what they would like to see, but I had understood we were giving direction to staff to follow what the staff wanted, which takes into consideration those, but does not necessarily mean that they are one-for-one taking those recommendations and implementing

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them. >> So I think the recommendations from the staff are consistent with the direction we heard from the two different systems. We would look to work with the -- with the council on legislative working group, including city staff and [indiscernible] Resources department [indiscernible] To take the input from the boards, from the two boards and develop a legislative package that the city as a planned sponsor would advance to the legislature, for our local legislative representatives, and seek approval in the next session. I don't know if I'm answering your question or if there's something more implicit -- >> Alter: Well, to vote on what pieces of it. >> So the members -- the boards have the discretion to request members additional funding, the members can follow election of

[11:15:57 AM]

the members to see if members want to get any additional funding, and then most members get to vote on that. Another option with regard to increased member contributions would be for the city to pursue that legislatively. >> Alter: Okay. >> I mean, the city contributions, the city can increase contributions without any additional legislative action, in regards to benefit changes. For the most part, those require legislative action as well, although those have some discretion in regards to benefit levels, the types of benefit changes that have been discussed so far are changes that will only affect new hires and would require legislative action. >> Alter: Okay. So there is still this complicated mix of different approvals, but we feel like if we can come up with a plan that our members are substantially behind and the city is behind, then the

[11:16:58 AM]

legislative process is, you know, mandated for good reason so that we have pension systems that are functioning well, but that if we came up with our solutions, we'd be able to move that through that process reasonably. >> Yes. >> Alter: Okay. And then two other questions, is overtime included? How is overtime calculated in these pension -- >> That's summarized on pfm's benchmarking site. Overtime is part of the highest calculation compensation, the overtime benefit. >> It's so slide 17 and on slide 20. For employees it's base pay, and for police it's base pay plus longevity, but overtime is included. >> Alter: Okay. And then I wanted to ask the

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consultants -- we were having some discussion over whether we should be looking for an amortization of over 25 or over 30 years. Did you have any thoughts on -- >> I have thoughts on that and I'd be happy to hear what my [indiscernible] Have to say too -- >> Alter: I heard your thoughts when we spoke individually so I was curious what the consultants were suggesting. >> I mean, I think the Texas pension review board's recommendations of trying to be in the 15 to 25-year range makes sense. You kind of want that more or less aligned with the sort of expected service of your current actives, you know, how many more years do folks have to go. You don't want it carrying over into future generations of taxpayers or employees. So, you know, somewhere in that range is good practice, certainly

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blow 30 years would be desirable. I think 30 years is kind of the outer bound of what -- what -- may be even slightly past the outer bound of what would be considered good practice nationally. >> Alter: I didn't mean to cut you off, but I did want to hear from them and also welcome your thoughts as well. >> Yeah. I don't disagree with what Michael said. I think part of it has to do, though, with the funding model that we're to move forward with. I think if we wanted to continue to pursue a fixed rate funding model when solving for a shorter amortization period makes sense so you have a little bit of cushion built into your model. So, in other words, if you're [indiscernible] For the pension review board 30-year recommendation and you're on a fixed contribution level, any actuarial assumptions, we have to move back 30 years. So if we were to stick with a

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fixed contribution model, it would advocate for a shorter modeling period; with an actuarial determined model where the rates can adjust slightly up or down as the condition of the fund changes, then I think a longer period is appropriate. Not 30, for sure, I think 30 is definitely the threshold, but I think something along the lines of a 30-year period could work if we have an actuarially determined contribution approach. >> Alter: Mayor Adler. >> Mayor Adler: Just one quick other thing. So I think that ten years ago, though, the fire pension was the one that was most in trouble or needed the most attention in order to right itself. And I'm not real clear as to what happened for it to get to the place that it is now for the next ten years. And I think that would be a good

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thing for us to take a look at. And if you could report that back to the members of this subcommittee or this committee, I think that would be helpful. I'd like to know what they did. >> We can do that. >> Alter: Mayor, I think that's a great idea and I was just going to ask for something similar. I think that the members of the fire department also stepped up and put in considerable contributions as part of the solution that happened, as I understand it. Are there any other further questions at this point? If not, my understanding is, what staff would like is just a vote of support for the general direction to be able to pursue options, some of which might need to be included in the budget process that's coming forward, and to propose a path.

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It is not -- it is not approving what exactly has been proposed in any one of the -- by any one of the systems, per se. There are additional nuances that I understand that would be filled in, and that was in the way the directions were suggested by each of the systems. And, you know, knowing that we have to go to the legislature starting in January, I think that work needs to move forward. We are not making a decision one way or another at this point other than to say that we are affirming that this is based in this that we think can shape us moving forward. Is that correct? Is that generally what you need from us at this point? And we, I think, pretty much agreed that we are all willing to serve on a working group to help guide the legislative process,

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which would overlap with this committee but not function out of this committee, per se. >> I believe that is what we need. >> Alter: Thank you. Councilmember pool, did you want to make a mostly? >> Pool: I'd be happy to make that motion, yes, thank you. >> Alter: Okay. So the motion is just to support the direction the staff is going and to address the pension liabilities? >> Pool: Right. It is, and also, sincere thanks in that motion for all of the work from staff and pfm that gets us here. We've got a big responsibility ahead, a big risk, and I think we've got a firm foundation for that. >> Alter: And is there a second for that motion? Councilmember Flannigan. And before we vote, I just want to note also that this meeting was open for citizen communication. We did have one person signed up but they did not end up calling

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in, and I thank staff for the work on this. I'm very pleased to see that we are taking a proactive approach to addressing these concerns and that we've identified manageable steps, if we work together with the systems, can put us on a firm financial footing that will keep our credit rating and allow us to provide the pensions that our staff are anticipating. So we can go ahead and vote. All in favor? It's unanimous. Thank you very much. Staff, did you need anything else from us on this at this point? >> I don't think we do, but thank you so much for your attention and the work with us over the last few weeks, and especially for all the councilmembers who are on the boards. We appreciate you attending those meetings and your work and service to the community and the employees on those boards. But I really appreciate the

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direction from this committee and the willingness for y'all to work on a legislative group with us. Thank you. >> Alter: Thank you. And thank you to my colleagues. I know we've had a lot of -- a lot of different topics coming at us the last few weeks or months, but this was an important one, and I'm pleased that we're able to make some steps forward. Thank you all for your time this morning, and I think that's all that we have on our agenda. We do have a meeting, I believe, called next week for interviewing municipal civil service, so check for that. I believe we're trying to interview four people for that. Thank you so much. With that, I'm going to adjourn this meeting at 11:25 A.M. Thank you. >> Thank you. >> Mayor Adler: Thank you. Bye. >> Bye.